

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL**

FOR: HEALTH CARE FINANCING ADMINISTRATION

1. TRANSMITTAL NUMBER:

0 1 — 1 5 MA

2. STATE:

New Jersey

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL
SECURITY ACT (MEDICAID)TO: REGIONAL ADMINISTRATOR
HEALTH CARE FINANCING ADMINISTRATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

April 1, 2001

5. TYPE OF PLAN MATERIAL (Check One):

☐ NEW STATE PLAN☐ AMENDMENT TO BE CONSIDERED AS NEW PLAN☒ AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:

1902(a)(13) of the Social Security Act

7. FEDERAL BUDGET IMPACT:

a. FFY 2001 \$ 0

b. FFY 2002 \$ 0

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19D

109; 109.1; 110; 110.1; 110.2; 110.3;

111; 112; 113; 114

*** SEE REMARKS

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable):

Attachment 4.19D

None

Delete 114.1; 114.2

10. SUBJECT OF AMENDMENT: Nursing Facility Reimbursement; Buildings and Fixed Equipment; Land

11. GOVERNOR'S REVIEW (Check One):

☐ GOVERNOR'S OFFICE REPORTED NO COMMENT☐ COMMENTS OF GOVERNOR'S OFFICE ENCLOSED☐ NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL☒ OTHER, AS SPECIFIED:

Exempt pursuant to 7.4 of the Plan

12. SIGNATURE OF STATE AGENCY OFFICIAL:

13. TYPED NAME:

James W. Smith, Jr.

14. TITLE:

Acting Commissioner

15. DATE SUBMITTED:

16. RETURN TO:

Division of Medical Assistance and
Health Services

PO Box 712

Trenton, New Jersey 08625-0712

(d) The following considerations will be addressed in determining the CFA:

1. Buildings (see section 3.11);
2. Land and land improvements (see section 3.12);
3. Equipment (routine moveable) (see section 3.13);
4. Maintenance and replacements (see section 3.14);
5. Property insurance (see section 3.15);
6. Economic occupancy level (see section 3.16).

NOTE: The following words and terms, when used in section 3.11 and section 3.12, shall have the following meanings unless the context clearly indicates otherwise.

"New nursing facility" means a facility which satisfies the following criteria:

1. Does not replace a pre-existing facility which was licensed by the Department of Health and Senior Services;
2. Does not assume the per diem rate of a pre-existing facility; and
3. Does not have a specific pre-existing patient base.

"Replacement nursing facility" means a facility which satisfies the following criteria:

1. Replaces a pre-existing facility which was licensed by the Department of Health and Senior Services;
2. Can assume the per diem rate of the pre-existing facility; and
3. Has a specific pre-existing patient base.

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3.11 Buildings and fixed equipment

- (a) The CFA for buildings and fixed equipment will be based upon appraised value as follows:
1. For NFs beginning operation before January 1, 1978, the CFA will be determined based upon appraised 1977 replacement costs derived from nationally recognized construction cost manuals, less wear and tear and subject to reasonableness limits as described in (c), (d) and (e) below.
 2. For new NFs, replacement NFs, or significant additions to existing NFs, beginning operation on or after January 1, 1978, the appraised value will be determined at the time construction is completed, based upon price levels derived from nationally recognized construction cost manuals, subject to reasonableness limits as described in (c), (d) and (e) below.
- (b) The appraisals are to be conducted by an agent designated by the State.
- (c) A reasonableness limit on plant square feet will be set at 110 percent of the median plant square feet per available bed of all Class I and Class III NFs which had over 20 percent Medicaid patient days in the base period. A separate reasonableness limit will be developed for governmental Class II NFs by the same method. NFs not substantially complying with current State and Federal space requirements or carrying space waivers will be excluded from this calculation.

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- (d) The Department shall establish a reasonableness limit on the amount of reimbursement that an NF shall receive for the building and fixed equipment component of its CFA.

1. The reasonableness limits on appraised value per square foot set for NFs from 1977 through 2000 are as follows:

Year	Year Specific Factor	Year Specific Factor		Year	Year Specific Factor	Year Specific Factor
	Class I & III NFs	Class II NFs			Class I & III NFs	Class II NFs
1977	\$43.00	\$50.00		1989	\$109.00	\$128.00
1978	\$49.00	\$57.00		1990	\$114.00	\$133.00
1979	\$54.00	\$63.00		1991	\$119.00	\$139.00
1980	\$59.00	\$69.00		1992	\$123.00	\$144.00
1981	\$65.00	\$76.00		1993	\$128.00	\$150.00
1982	\$72.00	\$84.00		1994	\$133.00	\$156.00
1983	\$79.00	\$92.00		1995	\$138.00	\$162.00
1984	\$87.00	\$101.00		1996	\$143.00	\$168.00
1985	\$92.00	\$107.00		1997	\$146.00	\$172.00
1986	\$96.00	\$112.00		1998	\$150.00	\$177.00
1987	\$100.00	\$117.00		1999	\$154.00	\$182.00
1988	\$103.00	\$121.00		2000	\$159.00	\$188.00

2. The reasonableness limit on appraised value per square foot set for NFs from 2001 and thereafter shall be incremented annually by

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multiplying by an index factor, which is the average of percentages derived from:

- i. The Marshall Swift Valuation Index for the Eastern District; published by Marshall and Swift, 1617 Beverly Blvd., P.O. Box 26307, Los Angeles, California; and
 - ii. The weighted average of the Consumer Price Index and the average hourly earnings of factory production workers published by the New Jersey State Department of Labor.
3. For significant additions to existing NFs beginning operation since January 1, 1978, the reasonableness limit shall be at the original reasonableness limit as determined from (d)1 above, increased by a factor as specified at (d)2 above. A single weighted reasonableness limit for the entire NF will be calculated based upon the square footage and the corresponding year specific index factors of the building as originally appraised and the appraised addition(s).
 4. A separate reasonableness limit will be developed for governmental NFs by the same method.
- (e) The reasonable limits as described above will be combined to allow for square feet in excess of that established limit where value per square foot is less than that limit for each class of nursing facility.
 - (f) The CFA for buildings and fixed equipment will be determined by applying the appropriate interest or amortization rate, described in (f)1 and 2 below, to the reasonable appraised value of the building and fixed equipment.

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1. Interest rate:

- i. For NFs beginning operation before January 1, 1978, the interest rate is equal to the Medicare return on equity rate for the 12 month period ending with December of 1976 (10.719 percent).
- ii. For NFs, or significant additions to existing NFs, beginning operation between January 1, 1978 and September 30, 1985, the interest rate is equal to the Medicare return on equity rate published at the inception of operations.
- iii. For NFs, or significant additions to existing NFs, beginning operations between October 1, 1985 and September 30, 1993, the interest rate is equal to 150 percent of the Medicare return on equity rate published at the inception of operations.
- iv. For NFs, or significant additions to existing NFs beginning operations on or after October 1, 1993, the interest rate is equal to 150 percent of the applicable interest rate at the inception of operations as indicated by the Table of Average Interest Rates on Special Issues of Public-Debt Obligations Issued to the Federal Hospital Insurance Trust Fund as published by the Office of the Actuary of the Federal Health Care Financing Administration.

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2. The amortization rate shall be equal to the ratio of annual debt service (principal and interest) to original principal required to amortize a loan in 25 equal installments, with an interest rate equal to the appropriate above defined "interest rate".
- (g) For the first 25 years of the life of a NF beginning with the year of construction, the amortization rate will be applied to the reasonable appraised value of the building and fixed equipment.
- (h) Beyond the 25th year after construction, the interest rate will be applied to the reasonable appraised value of buildings and fixed equipment.
- (i) For NFs built in multiple stages, a weighted average year of original construction will be established by weighing licensed beds by the age of the component multiple stages of the building in which the beds are located. Where inequities could result from this calculation, homes with suitable records may request that the weighted average year of construction be calculated based upon plant square feet constructed.
- (j) For NFs with residential and/or sheltered care patients, data relative to common areas will be apportioned to nursing patients based upon base period licensed beds. After making such apportionments, appraised values will be subject to the reasonableness screens described in (c), (d) and (e) above and, where applicable, to the weighted average year of construction calculations described in (i) above. This proration will not be redetermined for subsequent years in the absence of significant changes in facilities or in patient mix.

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- (k) For NFs that were converted to NF use from other uses, the year of conversion will be used provided the conversion costs exceeded the acquisition cost of the building and building equipment. Otherwise, the original year of construction will be used.
- (l) For existing NFs the State will not increase the CFA rate in future years should the Table of Average Interest Rates on Special Issues of Public-Debt Obligations issued to the Federal Hospital Insurance Trust Fund as published by the Office of the Actuary of the Federal Health Care Financing Administration increase.
- (m) The Medicaid Program will review, on an individual basis, situations where the strict application of the provisions of this section would be inappropriate under particular circumstances, such as:
 - 1. Situation where an existing debt must be refinanced in connection with obtaining funds to expand existing NFs;
 - 2. The inability of NFs to obtain 25-year financing.

3.12 Land

- (a) The CFA for land will be based upon appraised value of land and land improvements determined by an agent designated by the State of New Jersey as follows:
 - 1. For NFs beginning operation before January 1, 1978, the 1977 value of land and land improvements;

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2. For NFs beginning operation on or after January 1, 1978, the value of land and land improvements as of the completion of construction;
3. For additions to existing NFs beginning operation on or after January 1, 1978, the value of additional land acquired or additional land improvements made as of the completion of construction of the addition. Land or land improvements previously included in a facility's appraisal will not be reappraised in determining value of an addition to a facility;
4. For replacement facilities beginning operation on or after January 1, 1978, the value of additional land acquired or additional land improvements made as of the completion of construction. Land or land improvement included in the original facilities appraisal will not be reappraised in determining value of a replacement facility;
5. Land and land improvement value will be subject to reasonable limits with respect to:
 - i. Reasonable land area;
 - ii. The total reasonable appraised value of reasonable land area.
6. The Department shall establish a reasonableness limit on the amount of reimbursement that an NF shall receive for the land component of its CFA. Reasonableness limits for land and land improvements will be the same as defined for property taxes on land at 3.7.

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- i. The reasonableness limits on the appraised value of land set for NFs from 1977 through 2000 are as follows:

Year	Percentage Factor	Acreage Factor	Year	Percentage Factor	Acreage Factor
1977	140.00	2/5	1989	238.29	2/5
1978	155.00	2/5	1990	242.94	2/5
1979	165.00	2/5	1991	246.94	2/5
1980	175.00	2/5	1992	250.65	2/5
1981	185.00	2/5	1993	254.62	2/5
1982	195.00	2/5	1994	258.73	2/5
1983	205.00	2/5	1995	262.42	2/5
1984	215.00	2/5	1996	266.01	2/5
1985	220.65	2/5	1997	268.29	2/5
1986	225.25	2/5	1998	271.18	2/5
1987	229.35	2/5	1999	274.05	2/5
1988	232.75	2/5	2000	277.10	2/5
		urban/rural			urban/rural

- ii. The reasonableness limit for appraised value of land set for NFs from 2001 and thereafter shall be incremented annually by adding an index factor, which is the average of percentages derived from:

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